Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 30 September 2015	Current Period		Cumulative Period	
(All figures are stated in RM'000)	2015	2014	2015	2014
Revenue	**524,413**	502,086	**1,509,162**	1,495,830
Cost of sales	**(442,184)**	(416,079)	**(1,250,488)**	(1,248,063)
Gross profit	**82,229**	86,007	**258,674**	247,767
Operating expenses	**(51,205)**	(57,059)	**(155,169)**	(149,537)
Finance costs	**(5,930)**	(4,261)	**(15,251)**	(11,319)
Interest income	**243**	258	**751**	815
Profit before zakat and taxation	**25,337**	24,945	**89,005**	87,726
Zakat	**(700)**	-	**(700)**	-
Taxation	**(4,662)**	(9,944)	**(19,762)**	(30,122)
Profit for the period	**19,975**	15,001	**68,543**	57,604
Profit for the period attributable to:				
Owners of the parent	**19,971**	14,955	**67,982**	57,147
Non-controlling interests	**4**	46	**561**	457
Profit for the period	**19,975**	15,001	**68,543**	57,604
Earnings per share - sen				
Basic and diluted	**7.71**	5.78	**26.26**	22.07

The Unaudited Condensed Consolidated Income Statement should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the quarter ended 30 September 2015	Current Period		Cumulative Period	
(All figures are stated in RM'000)	**2015**	**2014**	**2015**	**2014**
Profit for the period	**19,975**	15,001	**68,543**	57,604
Other comprehensive income, net of tax				
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation difference for foreign operations	**7,295**	(145)	**9,886**	(522)
	7,295	(145)	**9,886**	(522)
Total comprehensive income for the period	**27,270**	14,856	**78,429**	57,082
Attributable to:				
Owners of the parent	**24,953**	16,110	**74,791**	56,813
Non-controlling interests	**2,317**	(1,254)	**3,638**	269
Total comprehensive income for the period	**27,270**	14,856	**78,429**	57,082

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2015	As at 31 December 2014
(All figures are stated in RM'000)		
ASSETS		
Non-current assets		
Property, plant and equipment	**390,687**	369,800
Prepaid lease payments	**2,598**	2,547
Intangible assets	**254,974**	232,982
Receivables	**12,055**	12,055
Deferred tax assets	**21,727**	21,070
	682,041	638,454
Current assets		
Inventories	**492,479**	427,035
Receivables	**272,088**	142,916
Tax recoverable	**8,650**	2,333
Deposits, cash and bank balances	**18,428**	31,982
	791,645	604,266
TOTAL ASSETS	**1,473,686**	1,242,720
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**129,441**	129,441
Reserves	**404,552**	397,071
Shareholders' equity	**533,993**	526,512
Non-controlling interests	**29,161**	25,523
Total equity	**563,154**	552,035
Non-current liabilities		
Loans and borrowings	**781**	1,060
Deferred tax liabilities	**28,355**	28,290
Provision for defined benefit plan	**7,378**	6,213
	36,514	35,563
Current liabilities		
Payables	**358,870**	448,554
Amount due to immediate holding company	**264**	227
Current tax liabilities	**10,142**	6,109
Deferred income	**55**	152
Loans and borrowings	**504,687**	200,080
	874,018	655,122
Total liabilities	**910,532**	690,685
TOTAL EQUITY AND LIABILITIES	**1,473,686**	1,242,720

The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company						
For the quarter ended 30 September 2015	**Share Capital**	*** Share Premium**	*** Exchange Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
(All figures are stated in RM'000)							
At 1 January 2015	**129,441**	**11,751**	**(1,730)**	**387,050**	**526,512**	**25,523**	**552,035**
Total comprehensive income for the period	**-**	**-**	**6,809**	**67,982**	**74,791**	**3,638**	**78,429**
Transactions with owners							
Dividends	-	-	-	**(67,310)**	**(67,310)**	**-**	**(67,310)**
At 30 September 2015	**129,441**	**11,751**	**5,079**	**387,722**	**533,993**	**29,161**	**563,154**
At 1 January 2014	129,441	11,751	(4,131)	350,571	487,632	15,631	503,263
Total comprehensive income for the period	-	-	(335)	57,148	56,813	269	57,082
Transactions with owners							
Dividends	-	-	-	(36,763)	(36,763)	-	(36,763)
Acquisition of a subsidiary	-	-	-	-	-	4,969	4,969
Issue of shares by a subsidiary	-	-	-	-	-	186	186
At 30 September 2014	129,441	11,751	(4,466)	370,956	507,682	21,055	528,737

* Denotes non distributable reserves

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the quarter ended 30 September 2015

(All figures are stated in RM'000)	2015	2014
Operating Activities		
Cash receipts from customers	**1,391,220**	1,397,611
Cash payments to suppliers and employees	**(1,533,518)**	(1,359,241)
Net cash (used in)/generated from operations	**(142,298)**	38,370
Interest paid	**(15,277)**	(11,389)
Tax paid	**(23,765)**	(11,742)
Interest received	**656**	807
Net cash (used in)/generated from operating activities	**(180,684)**	16,046
Investing Activities		
Acquisition of a subsidiary	**-**	(69,333)
Issue of shares by a subsidiary	**-**	186
Purchase of property, plant and equipment	**(43,220)**	(24,780)
Purchase of intangible assets	**(21,635)**	(49,437)
Proceeds from disposal of property, plant and equipment	**168**	49
Net cash used in investing activities	**(64,687)**	(143,315)
Financing Activities		
Dividend paid	**(67,310)**	(36,761)
Net drawdown of borrowings	**298,075**	172,780
Net cash generated from financing activities	**230,765**	136,019
Net (decrease)/increase in cash and cash equivalents	**(14,606)**	8,750
Effects of exchange rate changes	**1,052**	(783)
Cash and cash equivalent at beginning of period	**31,982**	32,900
Cash and cash equivalent at end of period	**18,428**	40,867
Analysis of cash and cash equivalents		
Deposits, cash and bank balances	**18,428**	40,867

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Part A - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 ("MFRS 134")

A1. Basis of Preparation

These unaudited condensed consolidated interim financial statements for the period ended 30 September 2015 have been prepared in accordance with MFRS134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014. The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transaction that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2014.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014 and there is no new Malaysian Financial Reporting Standards (MFRSs)/IC Interpretations and amendments to MFRSs/IC Interpretations which are applicable for the Group's financial period beginning 1 January 2015.

A2.1 MFRSs and Amendments to MFRSs issued but not yet effective

At the date of authorisation of these interim financial statements, the following MFRSs and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

a) Financial year beginning on/after 1 January 2016

i) Amendments to MFRS 116 ‘Property, plant and equipment’ and MFRS 138 ‘Intangible assets’ (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation and amortisation of an item of property, plant and equipment and intangible are not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

ii) Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2016) resolve a current inconsistency between MFRS 10 and MFRS 128. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a ‘business’. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a ‘business’. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors’ interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. They are not intended to address accounting for the sale or contribution of assets by an investor in a joint operation.

b) Financial year beginning on/after 1 January 2018

i) MFRS 15 ‘Revenue from contracts with customers’ (effective from 1 January 2018) replaces MFRS 118 ‘Revenue’ and MFRS 111 ‘Construction contracts’ and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A2. Significant Accounting Policies (Continued)

A2.1 MFRSs and Amendments to MFRSs issued but not yet effective (continued)

b) Financial year beginning on/after 1 January 2018 (continued)

ii) MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with a irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group upon their initial application.

A3. Audit report in respect of the 2014 financial statements

The audit report on the Group's financial statements for the financial year ended 31 December 2014 was not qualified.

A4. Seasonal or cyclical factors

The Group's operations are not subject to any significant seasonal or cyclical factors.

A5. Unusual items due to their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the period under review.

A6. Change in Estimates

There were no material changes in estimates of amounts reported in the current financial period or the previous financial year.

A7. Debt and equity securities

There were no issuance and/or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares in the current financial period.

A8. Dividends

On 26 March 2015, the Company paid a fourth interim dividend of 12.0 sen (2013: 6.20 sen) per share in respect of the financial year ended 31 December 2014 amounting to RM31.1 million (2013: RM16.0 million).

On 25 June 2015, the Company paid a first interim dividend of 7.0 sen (2014: 4.00 sen) per share in respect of the financial year ending 31 December 2015 amounting to RM18.1 million (2014: RM10.4 million).

On 15 September 2015, the Company paid a second interim dividend of 7.0 sen (2014: 4.00 sen) per share in respect of the financial year ending 31 December 2015 amounting to RM18.1 million (2014: RM10.4 million).

For the third quarter, the Directors have declared a third interim dividend of 9.0 sen (2014: 8.0 sen) per share in respect of the financial year ending 31 December 2015. The dividend will be paid on 21 December 2015 to shareholders registered in the Register of Members at the close of business on 11 December 2015.

A9. Operating segments

Operating segment information for the period is as follows:

RM'000	Logistics and Distribution	Manufacturing	Eliminations	Total
2015				
Revenue				
External revenue	1,495,599	13,563	-	1,509,162
Inter-segment revenue	5,864	262,804	(268,668)	-
Total revenue	1,501,463	276,367	(268,668)	1,509,162
Results				
Segment results	22,087	86,233	(4,815)	103,505
Finance costs	(15,130)	(2,224)	2,103	(15,251)
Interest income	2,831	23	(2,103)	751
Profit before zakat and taxation	9,788	84,032	(4,815)	89,005
Zakat				(700)
Taxation				(19,762)
Profit for the period				68,543
2014				
Revenue				
External revenue	1,482,944	12,886	-	1,495,830
Inter-segment revenue	3,822	263,597	(267,419)	-
Total revenue	1,486,766	276,483	(267,419)	1,495,830
Results				
Segment results	30,394	78,037	(10,201)	98,230
Finance costs	(11,234)	(1,297)	1,212	(11,319)
Interest income	2,014	13	(1,212)	815
Profit before taxation	21,174	76,753	(10,201)	87,726
Taxation				(30,122)
Profit for the period				57,604

A10. Carrying Amount of Revalued Assets

There has been no revaluation of property, plant and equipment during the current financial period.

A11. Subsequent Event

There was no subsequent event as at 26 November 2015 that will materially affect the financial statements of the financial period under review.

A12. Changes in the Composition of the Group

There was no change in the composition of the Group for the current financial period ended 30 September 2015.

A13. Contingent Liabilities

No contingent liability has arisen since the financial period end.

A14. Commitments

The Group has the following commitments as at 30 September 2015:

	Authorised and contracted for RM'000	Authorised but not contracted for RM'000	Total RM'000
Property, plant and equipment	25,559	15,940	41,499
Intangible assets	2,092	-	2,092

A15. Financial Risk Management

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for year ended 31 December 2014.

A16. Intangible Assets

RM'000	Goodwill	Software	Capitalised development cost of work-in-progress	Pharmacy manufacturing licence and trade name	Rights to supply	Total
Cost						
At 1 January 2015	139,327	3,538	1,042	19,430	110,391	273,728
Additions	-	-	1,900	-	33,794	35,694
Foreign exchange adjustments	3,355	265	-	1,240	-	4,860
At 30 September 2015	142,682	3,803	2,942	20,670	144,185	314,282
Accumulated amortisation						
At 1 January 2015	-	2,310	-	1,827	23,956	28,093
Amortisation charged	-	390	-	1,496	16,348	18,234
Foreign exchange adjustments	-	211	-	117	-	328
At 30 September 2015	-	2,911	-	3,440	40,304	46,655
Accumulated impairment						
At 1 January/30 September 2015	12,653	-	-	-	-	12,653
Net carrying value						
At 30 September 2015	130,029	892	2,942	17,230	103,881	254,974
At 31 December 2014	126,674	1,228	1,042	17,603	86,435	232,982

During the first quarter, the Group has completed the purchase price allocation for the acquisition of PT Errita Pharma as required by MFRS 3 "Business Combination". Based on the final assessment, there is no adjustment to the provisional goodwill of RM48.8 million.

B17. Performance Review

Quarter 3 2015 vs Quarter 3 2014

For the third quarter, the Group registered a profit before tax (PBT) of RM25.3 million, compared with RM24.9 million in the previous year’s corresponding quarter. This was primarily attributable to ongoing cost optimisation measures, which helped to reduce operating expenses, despite higher amortization of the Pharmacy Information System ("PhIS"). Meanwhile, revenue for the quarter rose to RM524.4 million from RM502.1 million previously, mainly due to improved contributions from the Group’s Indonesian operations.

Period ended 30 September 2015 vs Period ended 30 September 2014

For the first nine months of the financial year, the Group posted a higher PBT of RM89.0 million, up from RM87.7 million in the previous year’s corresponding period. This was largely due to favourable profit margins from the Manufacturing Division as a result of continuous cost optimisation initiatives, which led to reduced manufacturing costs. This included batch consolidation, enhanced procurement exercises and increased production yields through utilisation of innovative methods. Meanwhile, revenue for the period stood at RM1.5 billion.

The **Logistics and Distribution Division** recorded a lower PBT of RM9.8 million for the nine-month period, from RM21.2 million in the same period last year. This was mainly attributable to lower Government orders and higher amortisation of the PhIS.

The **Manufacturing Division** registered a stronger PBT of RM79.2 million for the first nine months, compared with RM66.6 million in last year’s corresponding period. This was driven by lower manufacturing costs as described above.

B18. Material Changes in Quarterly Results Compared to The Results of the Immediate Preceding Quarter

For the current quarter, the Group recorded an improved revenue of RM524.4 million from RM512.8 million in the preceding quarter. This was mainly due to increased orders from Government hospitals under the concession and non-concession businesses. Despite higher amortization of PhIS and transportation costs, reduced overhead expenses such as marketing and promotions resulted in a solid PBT of RM25.3 million in the current quarter, from RM25.1 million in the preceding quarter.

The **Logistics and Distribution Division** posted a PBT of RM0.3 million, a turnaround from the deficit of RM1.3 million in the preceding quarter, as a result of the cost containment measures described above.

The **Manufacturing Division** recorded a PBT of RM25.1 million, marginally lower compared with RM26.3 million in the preceding quarter.

B19. Prospects

Although market conditions remain challenging, the pharmaceutical sector in Malaysia continues to hold much potential for growth opportunities. The Group continues to build on the growing demand for healthcare products while focusing on cost optimisation measures to maintain profitability.

The Group is bullish on long-term prospects, particularly with the Government’s Budget 2016 announcement demonstrating a clear emphasis on the development of the healthcare sector. With new hospitals to be built and a higher allocation for the supply of medicines and other pharmaceutical products to Government hospitals and clinics, the Group will be able to leverage on this in order to deliver sustained growth.

B20. Notes on variance in actual profit and shortfall in profit guarantee

The disclosure requirements for explanatory notes for the variance of actual profit after tax and non-controlling interest and shortfall in profit guarantee are not applicable.

B21. Income Tax

	Current Period		**Cumulative Period**	
RM'000	**2015**	2014	**2015**	2014
Taxation based on profit for the period:				
- Current	**4,412**	3,794	**23,577**	19,783
- Deferred	**2,753**	5,400	**1,194**	8,803
	7,165	9,194	**24,771**	28,586
(Over)/under provision in prior years:				
- Current	**(2,503)**	750	**(2,569)**	588
- Deferred	**-**	-	**(2,440)**	948
	(2,503)	750	**(5,009)**	1,536
	4,662	9,944	**19,762**	30,122

The Group's effective tax rate is lower than the statutory tax rate of 25% principally due to over provision of deferred tax liability and current tax in prior year.

B22. Corporate Proposal

Proposed acquisition of a subsidiary

On 28 August 2015, the Company announced that a conditional Share Purchase Agreement ("Share SPA") between Dato' Dr Kattayat Mohandas A/L C P Narayana ("Vendor") and Pharmaniaga Berhad had been signed to acquire the existing 1,400,000 ordinary shares of RM1.00 each in Bio-Collagen Technologies Sdn Bhd ("BCTSB") representing 70% of the total issued and paid up shares capital of BCTSB for a total cash consideration of RM3,500,000 only.

As at date of this report, the completion of the proposed acquisition of BCTSB is pending fulfilment of conditions precedent by the Vendor.

B23. Borrowings and Debt Securities - Unsecured

	30 September 2015	31 December 2014
Current:	**RM'000**	RM'000
Bankers' acceptances	**151,634**	23,566
Revolving credits	**270,000**	115,000
Short term foreign time loan	**80,749**	60,968
Bank overdraft	**1,742**	-
Hire purchase	**562**	546
	504,687	200,080
Non-current:		
Hire purchase	**781**	1,060

Short term foreign time loan of RM80.7 million (2014: RM61.0 million) is denominated in Indonesian Rupiah (IDR) and is equivalent to IDR269,163 million (2014: IDR216,199 million).

Included in bankers' acceptances is RM2.5 million (2014: RM1.7 million) is denominated in Indonesian Rupiah (IDR) and is equivalent to IDR8,345 million (2014: IDR6,000 million).

B24. Realised and Unrealised Profits of the Group

The retained profits as at 30 September 2015 is analysed as follows:

	30 September 2015 RM'000	31 December 2014 RM'000
Total retained profits of the Group and its subsidiaries:		
- realised profits	**412,135**	405,063
- unrealised losses	**(11,853)**	(8,819)
	400,282	396,244
Less: Consolidation adjustments	**(12,560)**	(9,194)
Total Group retained profits as per consolidated accounts	**387,722**	387,050

B25. Additional Disclosures

	Current Period		**Cumulative Period**	
	2015 RM'000	2014 RM'000	**2015 RM'000**	2014 RM'000
Depreciation and amortisation	**14,771**	12,500	**40,230**	35,030
Provision for and write off of receivables	**(389)**	1,156	**166**	3,584
Provision for and write off of inventories	**900**	4,345	**2,825**	11,141
Foreign exchange loss/(gain)	**1,579**	379	**3,067**	(16)

Other than the items mentioned above which have been included in the statement of comprehensive income, there were no impairment of assets, gain or loss on derivatives, gain or loss on disposal of subsidiaries and exceptional items included in the results for the period ended 30 September 2015.

B26. Economic Profit Statement

	Cumulative Period	
	2015 RM'000	**2014 RM'000**
Economic profit	**(3,934)**	15,709

B27. Profit Forecast

No commentary is made on any variance between actual profit from forecast profit, as it does not apply to the Group.

B28. Earnings Per Share (“EPS”)

	Current Period		Cumulative Period	
	2015	**2014**	**2015**	**2014**
Profit attributable to shareholders of the Company (RM'000)	**19,971**	14,955	**67,982**	57,147
Weighted average number of ordinary shares in issue (‘000)	**258,883**	258,883	**258,883**	258,883
Basic and diluted earnings per share (sen)	**7.71**	5.78	**26.26**	22.07

B29. Authorised for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 November 2015.

By Order of the Board

Kuala Lumpur
26 November 2015

TASNEEM MOHD DAHALAN (LS0006966)